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Merchants complain credit-card machine peddlers trap them into costly leases

By Susan Kelleher

Seattle Times consumer-affairs reporter

Calvin Rooks took a break from painting a customer's house to consider the salesman's pitch: For just \$20 a month, you can rent one of those credit-card scanners that will let your customers swipe and charge their home repairs. If it doesn't help your business, the salesman said, return the device in six months and find someone to take over the lease.

Rooks, who owns a small remodeling company in Seattle, signed up with Northern Leasing Systems. But when he got the bill a month later, the cost was more than double what he'd agreed to, he said, and the four-year lease he'd signed was "noncancelable."

Rooks says his options seemed slim: Either pay Northern Leasing about \$1,500 to get out of the contract, or stop paying and tangle with the company's notoriously aggressive collections department, risking a lawsuit that could trash his credit.

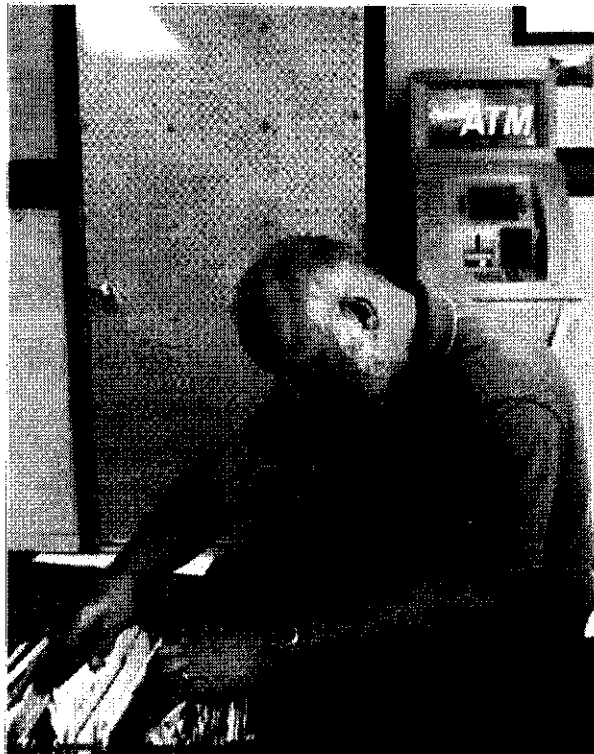
Instead, he closed his bank account and filed a complaint against Northern Leasing and a local company that processes credit-card charges with Washington state's attorney general.

"This was all such a needless waste of time and money," says Rooks, whose complaint is pending.

Rooks is one of hundreds of small-business owners across Washington state and the country who report falling victim to sales schemes that lock them into expensive leases for credit- and debit-card processing machines, which they could have bought for hundreds — even thousands — less.

Rooks' complaint is among at least 84 logged by the state against three credit-card-machine leasing companies since 2005. The Better Business Bureau has logged more than 680 complaints nationwide against Northern Leasing and its affiliated companies, and hundreds of complaints against the company have been posted on consumer Web sites such as ripoffreport.com.

Most of the complaints in this state allege salespeople trap merchants into costly leases with hidden fees and small-print clauses the merchants say were disclosed only after they tried to cancel the lease.



THOMAS JAMES HURST / THE SEATTLE TIMES
Lowell Parr signed a five-year lease for an ATM machine in an effort to draw customers to his used-car lot in Kelso. He discovered too late he had signed a "noncancelable" contract.

Other complaints allege forgery, failure to provide the promised services and aggressive collection practices that tied up their phone lines with dozens of harassing calls a day.

A Seattle Times review of complaints filed in Washington showed the companies tended to release merchants from their leases if they complained to the attorney general's office.

Northern Leasing spokesman Philip Hauserman said the 17-year-old company has little control over the independent salespeople who supply the equipment the company finances, but that it has cut ties to salespeople who generate complaints.

Hauserman also said the complaints represent a small fraction of the company's 450,000 active leases, and are to be expected from a company its size.

While the Federal Trade Commission and some states, including Washington, have successfully sued leasing companies accused of misrepresenting their services, law-enforcement officers and plaintiff attorneys say the practice is still widespread.

"It's one big outfit with 5 million hydra heads," said Krishnan Chittur, an attorney who is seeking class-action status in a suit he filed against Northern Leasing in New York, where the company is based. "There's a whole lot of them all over the country. But the modus operandi is the same."

First, a sales call

Here's how it works, according to merchants who have complained: A salesperson calls or drops in, and typically promises the merchant he can get them a better deal on debit- or credit-card machines that most small businesses consider key to their survival.

After the papers are signed, the salesperson becomes hard to pin down, and accountability evaporates. Calls to the leasing company typically generate the same reply: The salesman is not our employee, and you signed a contract that we intend to enforce.

The salesman is, in fact, an independent operator who is paid commissions by the leasing company and who earns monthly residuals by another company that process the credit- and debit-card charges.

When the merchant does get a copy of the contract, he or she learns it's four pages instead of one, and the terms sometimes don't match those offered by the salesman.

Frustrated and angry, the merchant stops paying the lease and even shuts down bank accounts to prevent the leasing company from automatically deducting money. That's when the collections calls start.

If the phone calls don't work, the leasing company files suit in New York, making it more expensive for businesses located elsewhere to fight the lease than to just pay it off.

Northern Leasing, for example, the company that Rooks signed with, has sued more than 17,300 merchants in a New York supreme court since 2000, court records show. Spokesman Hauserman said the company has sued about 2 percent of its leaseholders over the past nine years for defaulting on their contracts.

Mel Foster, of Seattle, the salesman who signed Rooks to the leasing contract, insisted he spelled out every detail and was not responsible if Rooks didn't read what he was signing.

"The bad guys are the ones who don't give full disclosure," he said, noting he's signed up 800 accounts during his 20-year sales career.

Foster said he typically earns about \$200 for each leasing contract but makes 90 percent of his income from residuals, paid as a percentage of the credit-card sales from the merchants he signs up in a separate processing agreement.

Buyers miss the catch

Chittur, the New York attorney, said a surprising number of merchants rely on the representations of the salesperson and don't realize they can't cancel or transfer without paying off the lease in full.

That's the position Lowell Parr found himself in after signing a five-year contract to lease an ATM from Lease Finance Group — an affiliate of Northern Leasing — for \$199 a month.

A businessman for 20 years, Parr said he had hoped the machine would draw more people to his used-car lot in downtown Kelso. He spent about an hour with the salesman before signing the lease.

Parr, 56, said he did nothing to verify the salesman's claims, check out the leasing company or even think through whether a cash machine would bring more thieves than customers. The machine now sits unplugged in a corner, costing about as much in a year as one of the two dozen cars Parr is selling on his lot.

"You'd think I'd know better," he said. "It took a couple of months before I figured out this wasn't a smart move."

By then, he also learned he'd signed a "noncancelable" contract with Lease Finance Group and owed the entire amount covered by the lease.

"By the end of the contract, this thing is going to cost me \$15,000," he said. "The machine alone will cost \$12,000. I went online. I could buy a brand-new one for \$3,500. And at the end of my lease, I won't even own the thing."

Parr said he intends to keep paying, knowing that if he stops, he could end up in collections or in court with ruined credit.

"Twelve thousand dollars," he said. "It would cost me more than that to have a bad credit rating."


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Is a corporation scamming small businesses?

Tuesday, May 22, 2007 | 11:32 PM

Eyewitness News Exclusive

 Eyewitness News

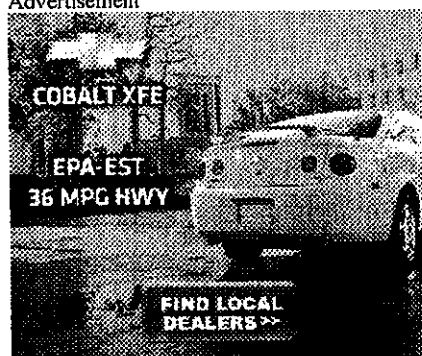
(New York - WABC, May 17, 2007) (WABC) -- It started with The Eyewitness News Investigators Sarah Wallace looking into lawsuits by a New York corporation against hundreds of mom and pop businesses. But then, in a dramatic twist, the small businesses claimed they were the victims, that they were ripped off.

Sarah Wallace has this exclusive story.

We were tipped off to look at the lawsuits filed in the clerk's office in Manhattan by a firm called Northern Leasing, also known as MBF Leasing, among other names. The volume of lawsuits we discovered was staggering. And then we started contacting the owners who say they're victims of fraud.

"The machine did not work," said Dave McMullen.

Story continues below
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A credit card processing machine was supposed to save him money but it's already cost Dave McMullen thousands of dollars.

McMullen runs his family's business -- Monmouth Truck Equipment in Shrewesbury, New Jersey. In 2005, McMullen's father signed up for what he thought was a credit card processing system attached to a bank.

"There was no bank. There was no institution attached to this machine," McMullen said.

The contract was with a firm called MBF leasing for \$149 a month for 48 months.

"It never worked. We threw it back in the box and there she sits," an employee said.

"No one ever called us back ... We forgot about it. And it wasn't until 8, 9 months later that we were served with a lawsuit that we remembered," McMullen said.

MBF claimed its contract is non-cancellable, and sued McMullen for the entire term of the 48-month lease.

"It's an ironclad contract but it's fraud," McMullen said.

MBF and its sister corporation, Northern Leasing, are headquartered in Midtown Manhattan. At the court clerk's office, we found hundreds of lawsuits filed against people all over the country who signed lease agreements.

Most of the lawsuits we discovered are against small business owners out of New York State, including in Washington, D.C. It costs money and time to get all the way to Manhattan to fight in court.

Take Hazem Elasmahy who works round the clock to keep his small tour bus company running. He says he's already lost thousands of dollars in business because of problems with a credit card processing machine from Northern Leasing.

"Lost a lot of business. I would say at least \$60,000," Hazem said.

Hazem says he cancelled the account. Northern Leasing kept trying to collect then sued him, leaving him with credit problems.

Sarah Wallace: "They would call you?"

Hazen: "20 times a day besides the letters."

We tried to talk to someone at Northern Leasing, but no one was available. A public relations person later told us most of their customers are satisfied, but that, "As one would expect in any company dealing with thousands of customers, Northern Leasing receives its share of customer complaints and works to satisfactorily resolve legitimate concerns they may have. However, we have learned that, in some instances, a complaint will be made by a customer who is just trying to avoid its legitimate obligations."

"We have clients all the way from California all the way to Connecticut and Washington through Florida," Attorney Krishnan Chittur said.

Attorney Krishnan Chittur is now suing Northern Leasing on behalf of clients around the country including people who claim they never even signed leases.

Sarah: "When you looked at this signature that you supposedly signed?"

Mindy Serrin: "It wasn't mine."

Mindy Serrin says she never signed a lease as an owner of a garage door company, but she still ended up being sued by Northern Leasing for failing to make payments.

Mindy: "It said I was a contractor ... that I was in business for 26 years and at the time I was a 22-year-old college student."

Sarah Wallace: "So it wasn't you?"

Mindy: "No. The signatures, none of it matched up so I got copies of checks to show it"

Sarah: "And they still pursued you?"

Mindy: "Still took me to court."

Sarah: "So you had to go to New York to fight this?"

Mindy: "Yes I did."

Dave McMullen is battling back, too, even though it's costing him thousands in attorney fees to battle back against Northern/MBF Leasing, it's principal.

"They sold us something that was phony and bogus and that's what this is all about," McMullen said.

Imagine though, how many business owners just cave and pay up because it's too much trouble to fight.

Attorney Chittur is now pursuing both a class action lawsuit and a Federal racketeering case on the forgery issue. Northern Leasing denies the allegations and claims only a small fraction of people have contested signatures.

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MBF Leasing strikes again

Local business owner receives constant calls

Photo 1 of 1 | Zoom Photo +



Julius Tenke gets between 20 and 50 calls a day from MBF Leasing demanding payment on his equipment lease. Tenke is just one of many local business owners who were scammed by the company.

Times Herald-Record/CHRISTINE YOUNG

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By Christine Young

Times Herald-Record
June 21, 2008

GODEFFROY — Julius Tenke will be under a car with a blow torch when the phone rings. He stops what he's doing to answer it, thinking it might be the state police requesting a tow.

Most of the time, however, it's not the police. It's a collection call from MBF Leasing, a Manhattan-based outfit accused of defrauding hundreds of thousands of small businesses across the country, including several in Orange County.

MBF Leasing blames independent sales representatives for its troubles, saying the company has "limited control" over independent contractors.

"We recognize that mistakes are sometimes made," said Michael Ares, spokesman of the Ledlie Group, an Atlanta public relations firm representing MBF. "Most of the time, we hear of these problems from the merchants themselves after the fact."

Constant debits

Tenke wishes he had never gotten mixed up with MBF, which goes by many other names, a few of which are Northern Leasing, Integrity, CRS and LFG. Tenke said he receives about 50 calls a day hounding him for payment on leases for check-scanning and credit card machines.

"I'll tell you right now, I'll never pay these people," Tenke said, his voiced raised almost to a shout. "I'll be damned if I'll give my work away to some scam artist. They can call me till the cows come home."

It seems this company will do just that, calling a half-dozen times during Tenke's hour-long interview with the Times Herald-Record.

Tenke got involved with LFG in 2005, when he signed a lease for a credit-card machine.

"We had it for three years," Tenke said. "It was \$29 a month plus a percentage of each transaction."

Then in January, a salesman from MBF showed up with a check-scanning machine.

"The way he was dressed, he didn't look like a scam artist," Tenke recalled. "He had a suit and tie, spit-shined shoes, shaven head — picture perfect."

The salesman, who called himself James M. Goodyear, was in a hurry. He told Tenke the check machine would save him a lot of money. Tenke signed a one-page contract for \$49 a month, and the man was gone.

Soon Tenke's bank account was getting monthly debits of \$69.77, and he had not even activated the machine. He called MBF, who faxed him his contract, but with numerous pages he said he had never before seen. He wrote them letters trying to cancel, and they refused.

Finally, he closed his bank account and opened a new one so the \$69.77 MBF debits would stop. It also prevented the \$29 debits from LFG, which he soon discovered was the same company. He was bombarded with identical letters with different letterheads, demanding payment, threatening legal action.

"If I were to give LFG my new bank number, MBF would have it," he said. "See what they're doing? It's

the same people."

It's the same people accused in a lawsuit of scamming up to 700,000 small businesses nationwide. Recently, New York's highest court, the Court of Appeals, refused to dismiss fraud claims against the company's top executives.

"We had asserted a fraud claim against the individual officers," explained plaintiffs' attorney Krishnan Chittur, who said the case is headed for trial in Manhattan.

Other victims

It's also the same people that Jerry and Robin Fournier of Port Jervis are fighting.

The Fourniers, who own R&J Auto Body, said they have been trying to get out of MBF's \$47.12 monthly debits for two years. Their story is like Tenke's, like Joe Riordan's of Try-R-Deli in Huguenot, like Rob Albino's of Eagle Auto Body in Middletown, and like the plaintiffs represented in the lawsuit. The Fourniers signed a one-page lease, only to find out later there were additional pages with additional hidden charges.

The Fourniers are still paying, afraid the company will ruin their credit or sue them, as they have dozens of other small businesses across the country, according to court records.

"We're such a small business that we don't need anything derogatory against us," Robin Fournier said. "It scares you."

Aiming for change

Michael Ares is the spokesman for MBF Leasing and its affiliates. He admitted the company has problems.

"We're trying to get them to change," he said. "We're making some progress, but not quickly enough. I will tell you, I will absolutely resolve this."

Tenke, who recently bought a new credit-card machine from his bank for \$180, is keeping his fingers crossed.

"Today, they called since 8 a.m., more than 40 calls," he said Friday. "I have a counter on my phone. I hang up and within one minute they'll call back. They just don't know how to stop."

cyoung@th-record.com

Reader Reaction

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Mando

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Notice that the Consumer Affairs bureaucrats, etc. would go after someone selling bubblegum with a mislabeled wrapper, yet matters like this go on and on with no action from authorities even after filing complaints. Obviously, palms are being greased to look the other way. Don't give up, Mr. Tenke!
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pwatcher1

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News

Exclusive: Alleged fraud targeting small businesses?

Tuesday, June 19, 2007 | 6:27 PM

 Eyewitness News

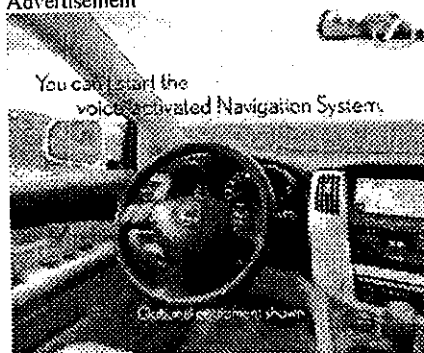
(New York - WABC, June 12, 2007) (WABC) -- In an Eyewitness News Investigators exclusive, small business owners from all over the country are now coming forward about an alleged scam they say has ripped them off. It involves credit card machines.

The Investigators Sarah Wallace broke the story last month. Now, the alleged fraud has grown and may involve a former judge.

Our first story focused on a company called Northern Leasing, also known as MBF. They've sued thousands of small business owners nationwide who claim they were fraudulently conned into signing iron clad leases for credit card processing machines. Now, we investigate the sales agents whose job is to get those signatures.

They are both smart and savvy, who've each built successful upscale optical stores in two New Jersey towns -- Red Bank and Seagirt. And now they have something else in common they wish they didn't.

[Story continues below](#)
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Sarah Wallace: "Scenario the same, one time fee and then all of this was added later."

Gail: "Absolutely."

It started, the women say, with a visit to their stores from sales reps with a company called Merchant Services. The pitch, sign this contract and save a bundle on credit card processing.

"I was told this was a one-time fee again. That it was going to save me a massive amount of money," Linda Cohen said.

Since both owners already owned equipment, they claim they questioned the print on the contract saying "lease" but were told not to worry -- they'd even get a free terminal for that one-time fee. In Gail Winsterstillas' case -- \$79.99.

Gail: "When I questioned him he says that's a one time service fee. Everybody pays, don't worry about it."

One former sales rep for Merchant Services told us he was trained to steer talk away from the issue of a lease.

Sarah Wallace: "You'd never tell them they're actually signing a lease."
Former sales rep: "No. It's our service fee. That's all you'd say, service fee."

But it was a lease for 48 months.

"They filled out in another area after I signed it ... \$79.99 for 48 months. That was not there when we signed the papers," Gail said.

"Everything except my signature was written in by somebody else at a later time," Linda said.

And they say they never originally saw these additional pages, detailing the non-cancellable lease agreement with a company called MBF Leasing.

"If they're having you sign something with one figure and then when you get it back after the fact they've filled in other numbers that is fraud. That's gotta be illegal," Gail said.

"This is definitely criminal. If anything was criminal, this was criminal," Linda said.

The owners say it got worse. With monthly debits that kept increasing, they closed their accounts, sent back the terminals and sent cancellation notices to Merchant Services and MBF.

"That's when they started calling me 10-15 times a day, "when are you paying, when are you paying," Gail said.

We discovered that MBF Leasing and its associated company Northern Leasing have sued thousands of small business owners around the country arguing their leases are non-cancellable. Many owners we spoke with are now pursuing a class action lawsuit claiming they were defrauded.

The question: are the companies who hire sales representatives to push those leases part of the alleged scam? The former rep we spoke to from Merchant Services told us at training both in New York and at the corporate headquarters in California, they were told to only show merchants the first page of the contract that's mostly blank.

Sarah Wallace: "You just get the signatures ... you don't fill in the rest of this?"

Rep: "No, we fill out nothing."

Sarah: "Who fills that in?"

Rep: "The company heads."

Sarah: "Who's David Gross?"

Rep: "David Gross is the account manager for the company."

Linda Cohen says David Gross is the rep who came into her store. He is the same David Gross who two years ago was a Nassau County judge indicted by the feds on charges of money laundering for the mob. He's been out on bail and apparently busy with Merchant Services. We found him at his Long Beach Island home where he closed the door on us.

We found the regional sales manager for the company in his midtown office.

Sarah Wallace: "Do you tell people that they are in fact signing a lease?"

Bruce Kenes, Merchant Services: "Yes."

Sarah: "You do?"

Bruce: "Absolutely. That is one of our disclosures." Sarah: "We've talked to people who said that they were not told that."

Bruce: "It's not true. People like to forget things."

"I think they need to expose properly and I appreciate truly from the bottom of my heart what you have come in and done here," Linda Cohen said.

A corporate spokesman for Merchant Services says they investigate all client complaints, but that "in all cases, there's been full disclosure of costs and other terms."

By the way, there's late word the two optical store owners we interviewed both say they've received phone calls that they're being let out of their lease agreements.

By the way, if you have any inside information about this or any other investigate story, call our tip line at 1-877-tipnews.

Business

'Nationwide scheme' in Orange County

2 businesses say leasing company altered contracts

By Christine Young
Times Herald-Record

February 24, 2008 6:00 AM

A leasing outfit that a federal lawsuit calls a "nationwide scheme to defraud" small businesses has come to Orange County, according to two local business owners who say they were scammed by the operation. Joe Riordan, owner of Try R Deli in Huguenot, and Rob Albino, co-owner of Eagle Auto Body in Middletown, say that MBF Leasing, also known as Northern Leasing, altered their contracts to lease business equipment after the contracts were signed.

A spokesman for the leasing company blamed independent contractors for the problems. Attempts at reaching those contractors, however, were unsuccessful.

When the businessmen tried to cancel the agreements, the company refused and insisted they pay up. "They were like legbreakers," Riordan said of the collection calls.

Riordan said a clean-cut salesman showed up shortly before the lunchtime rush at his Huguenot deli in 2006, offering a lease on a check-scanning machine. "He said, 'We have a machine that tells you whether a check is good or bad,'" Riordan recalled.

Riordan said he signed a one-page contract agreeing to lease the machine and authorizing \$49 monthly debits to his bank account. But once he started using the machine, more than \$100 a month was deducted, he said.

When Riordan called the company to complain, he said they sent him the one-page contract bearing his signature, along with several additional pages he had never seen.

"The writing is so small, you can't read it," he said. "I thought I was signing one page. I felt so comfortable with the salesman. It was like a shell game."

Riordan said when he closed his bank account to halt the debits, the company demanded \$6,000 to satisfy the contract. After he refused to pay, Riordan received a summons. Advised by his attorney, Sean O'Connor, that he would lose in court, Riordan paid in full.

Similar allegations against the Manhattan-based outfit were made in two federal lawsuits filed in Manhattan and in a separate suit filed by the Missouri attorney general last year.

The complaints allege that MBF and Northern Leasing routinely altered signed contracts, changing them from four months to four years, and charged as much as \$4,000 for a machine worth about \$300.

Albino has the same gripes. Late last year, a salesman for MBF showed up at his body shop with a one-page lease on a check-scanning machine.

"He said it would be \$15 a month, plus 30 cents a check," Albino said. "He offered to waive the normal \$59 leasing fee, and we signed on. He somehow got me to sign this piece of paper."

Before long, Albino noticed a \$59.95 monthly fee deducted from his bank account. Like Riordan, he tried to cancel, with no success, and received, along with the signed one-page contract, several pages he had never before seen, showing a debt of more than \$3,300.

Unlike Riordan, however, Albino refused MBF's repeated demands for payment.

"They haven't threatened to sue yet, but they just keep calling me," Albino said. "They say, 'You have to pay.' I say, 'I'm not paying.' They say, 'You signed a contract,' I say, 'I don't care. I'm not paying you.'"

Northern Leasing spokesman Michael Ares blames "independent sales organizations" for the problems, explaining that they make the sales while MBF and Northern only "service" the leases. He promised to investigate the complaints.

Several hours later, Ares followed up with an e-mail: "Rob Albino has been contacted by Northern Leasing since our discussion this morning. We have agreed to terminate his lease obligation in full, provided he returns the equipment... We have given him the benefit of the doubt and absolved him of any further obligation."

Riordan, however, whose attorney had advised him that the contract was valid, didn't fare as well.

"He was represented by legal counsel," Ares wrote, "who advised him to accept our offer to reduce his outstanding obligation... He paid off this obligation in installments."

In October 2007, Northern Leasing reached a settlement with the Missouri attorney general, agreeing to pay \$25,000 restitution to consumers and to reimburse the state \$5,000 for investigation and enforcement costs, according to spokesman John Fougere. The agreement also required Northern Leasing to cancel the consumers' outstanding leases and debts, Fougere said.

Riordan, meanwhile, said MBF Leasing wants him back. "They still call me and try to sell me this thing." cyoung@th-record.com